

Rating agencies colluded with IL&FS execs, finds audit

TIMES NEWS NETWORK

New Delhi/Mumbai: A forensic audit on credit rating agencies has pointed to massive irregularities by top IL&FS executives in obtaining favourable ratings, with allegations that the agencies did not change ratings despite knowledge of stress in the group, and colluded with the beleaguered entity's management.

The draft update by Grant Thornton is based on several emails between IL&FS group executives as well as some key functionaries of agencies to accuse ratings companies of changing their action after "private meetings and discussions". The mails point to instances of agencies like ICRA, CRISIL, CARE, Fitch, India Ratings, Moody's and Brickworks being manipulated by IL&FS management or ignoring the warning signs.

'PVT MEETINGS'

- Several rating agencies were **manipulated by IL&FS brass or ignored warning signs**, claims draft audit report
- Emails seem to indicate that **agencies changed their actions** after "private meetings and discussions" with IL&FS executives
- There were no downgrades although the **"agencies were aware that the group was under stress and had multiple issues"**

The mails suggested for at least three years before the collapse, the agencies ignored stress in IL&FS, IL&FS Transportation Network Ltd, despite having knowledge. Between 2012 and 2018, they had concerns on IL&FS, ITNL and IL&FS Financial Services and kept assigning high ratings.

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Agencies ignored stress in IL&FS, ITNL

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For instance, in an email on September 24, 2015, IFIN CEO Ramesh Bawa informed IL&FS vice chairman Hari Sankaran, with a copy to then chairman Ravi Parthasarthy, about liquidity issues in ITNL due to cost overrun in various projects. He also highlighted the rise in borrowing, which the market saw as a concern.

Similarly, in March 2016, Parthasarthy, who stepped down as IL&FS chairman months before it collapsed, wrote to top executives about the cash problems at ITNL and IL&FS Engineering and Construction Company (IECCL) for

six-seven months. IECCL had faced problems even in 2014-15.

The audit also points to an email sent on November 21, 2011 highlighting concerns of the three rating agencies — CARE, ICRA and Fitch regarding profitability, divestment and weak exposure in group companies but GT has said that there were no downgrades although the “agencies were aware that the group was under stress and had multiple issues”. Again in December 2015, Parthasarthy wrote to ousted ICRA CEO Naresh Takkar regarding concerns flagged on ITNL operations, but the audit suggested that there were no rating action.

IL&FS and CARE did not

comment on the report, while Crisil, Fitch, Brickworks and India Ratings could not be reached for comment.

“We are aware of the interim report commissioned by the ILFS board. We are reviewing the report, however, we can not

RATING GLITCH

comment on the accuracy of the report at present,” an ICRA spokesperson said.

What could have helped avert a rating downgrade were “private discussions and meetings” that IL&FS group executives had with the brass at the agencies, with the GT report citing several instances. What is

more damaging for the agencies, whose role is already being probed by investigative and regulatory agencies, are references by IL&FS employees to change the rating rationale. Surprisingly, they not just played ball but the mails suggest that in certain cases the words used by the rating companies were the same as those suggested by the controversial group.

In fact, there are cases where agencies seem to have agreed to “requests” from the IL&FS management to delay adverse action against ITNL and Gurgaon Metro to help them complete certain events such as a transaction or comply with regulatory timelines.